Colorado Legislative Council Staff

SB17-256

FISCAL NOTE

FISCAL IMPACT: ☒ State ☐ Local ☐ Statutory Public Entity ☐ Conditional ☐ No Fiscal Impact

Drafting Number:	LLS 17-1137	**Date:**	March 27, 2017
Prime Sponsor(s):	Sen. Lambert Rep. Hamner	**Bill Status:**	Senate Appropriations
		Fiscal Analyst:	Greg Sobetski (303-866-4105)

BILL TOPIC: PRIORITIZE HOSPITAL PROVIDER FEE REVENUE REDUCTION

Fiscal Impact Summary*	FY 2017-2018	FY 2018-2019
State Revenue	**($264.1 million)**	
Cash Funds	(264.1 million)	
State Transfers		
General Fund	(166.0 million)	
Highway Users Tax Fund	110.6 million	
Capital Construction Fund	55.3 million	
State Expenditures	**($528.2 million)**	
Cash Funds	(264.1 million)	
Federal Funds	(264.1 million)	
TABOR Impact	($264.1 million)	
Appropriation Required: ($528.2 million) - Dept of Health Care Policy and Financing (FY 2017-18).		
Future Year Impacts: None.		

**Totals may not sum due to rounding.*

Summary of Legislation

Recommended by the Joint Budget Committee, this bill reduces the amount appropriated from the Hospital Provider Fee Cash Fund in FY 2017-18. Because the Medical Services Board (board) is required to set the Hospital Provider Fee schedule so that the amount of revenue generated is approximately equal to or less than the amount appropriated from the fund, the bill effectively directs the board to reduce fee collections by $264.1 million for FY 2017-18.

Under current law, if fee revenue and federal matching funds are together insufficient to pay all fee-funded hospital reimbursements, the board is required to adopt rules to reduce eligible Medicaid and Child Health Plan Plus (CHP+) expansion populations to a level for which health care costs can be reimbursed using available funds. The bill suspends this requirement for FY 2017-18, instead requiring the revenue reduction to be applied against supplemental payments to hospitals for uncompensated health care costs.

Background

The Hospital Provider Fee is collected from all Colorado hospitals except psychiatric hospitals, long-term care hospitals certified by the Department of Public Health and Environment, and inpatient rehabilitation hospitals. Fees are assessed on the number of inpatient care days provided by the hospital and on a percentage of outpatient charges. A fee schedule for each year is determined by the board to approximately equal the appropriation for Hospital Provider Fee Cash Fund expenditures in the annual Long Appropriations Bill.

Fee revenue is collected in the Hospital Provider Fee Cash Fund and presented to the federal government to draw matching funds. Different match rates are available depending on the purpose and populations for which funds will be expended. Together, fee revenue and federal matching funds are used to:

- issue supplemental payments to hospitals for uncompensated health care;
- fund health care for Medicaid and CHP+ expansion populations;
- pay for administration of the fee; and
- offset losses in federal matching funds if and when public expenditures are not certified for certain outpatient procedures.

Hospital Provider Fee revenue is subject to the TABOR limit.

State Revenue

The bill will reduce Hospital Provider Fee Cash Fund revenue by **$264.1 million in FY 2017-18 only**. It is assumed that the board will establish a fee schedule as necessary to reduce fee collections by the same amount as that by which appropriations are reduced in the bill. This revenue reduction also results in a change in state transfers, as described below.

State transfers. Senate Bill 09-228 requires General Fund transfers to the Highway Users Tax Fund (HUTF) and the Capital Construction Fund (CCF) to occur each year through FY 2019-20. Transfers for a given year may be cut in half or eliminated depending on the size of the state TABOR refund obligation. Because the refund obligation for FY 2017-18 is expected to fall between 1.0 percent and 3.0 percent of General Fund revenue, the transfers are expected to be halved under current law. This bill eliminates the expected TABOR refund obligation, which will increase the amounts transferred to the HUTF and the CCF by $110.6 million and $55.3 million, respectively.

TABOR Impact

This bill reduces Hospital Provider Fee revenue by an amount sufficient to eliminate the projected TABOR refund obligation for FY 2017-18. Under current law, state revenue subject to TABOR is projected to exceed the Referendum C cap by $264.1 million. Since the bill reduces the refund obligation required to be set aside in the General Fund by $264.1 million without a corresponding change in General Fund revenue, the amount of money available in the General Fund for the budget will increase by an identical amount.

The total refund obligation for FY 2017-18, anticipated at $286.7 million, includes a $22.6 million adjustment for underrefunds of previous TABOR surpluses. The $22.6 million adjustment was set aside for TABOR refund obligations in prior year budgets and remains encumbered in the General Fund. It will be refunded to taxpayers along with the next TABOR refund administered by the state.

State Expenditures

The bill is expected to reduce expenditures for medical services premiums in the Department of Health Care Policy and Financing (HCPF) by **$528.2 million in FY 2017-18**. Of this amount, $264.1 million represents a reduction in expenditures from the Hospital Provider Fee Cash Fund, and $264.1 million represents a reduction in expected federal matching funds. The bill requires that the reduction in expenditures be deducted from reimbursements paid to hospitals for uncompensated health care costs rather than by reducing the eligible Medicaid and CHP+ expansion populations.

Technical Note

Under current law, the income tax credit for conservation easements is partially refundable when the state is required to refund revenue under TABOR. This bill, if enacted, is expected to eliminate the TABOR refund obligation for FY 2017-18, potentially making the conservation easement credit nonrefundable for tax year 2018. It is estimated that making the credit nonrefundable would increase state income tax revenue by $5.0 million relative to current expectations for tax year 2018, or $2.5 million in FY 2017-18 on an accrual accounting basis. It is not clear how the credit would be administered if state revenue were expected to fall short of the Referendum C cap by less than $2.5 million before accounting for the refundable portion of the credit.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

Consistent with this fiscal note, for FY 2017-18, the bill reduces HCPF appropriations for medical services premiums by $528.2 million, including a reduction of $264.1 million from the Hospital Provider Fee Cash Fund and $264.1 million from federal funds.

State and Local Government Contacts

Health Care Policy and Financing   Joint Budget Committee Staff